

AQUA ILLINOIS, INC.
KANKAKEE, ILLINOIS

CONSOLIDATED WATER DIVISIONS
&
CONSOLIDATED SEWER DIVISIONS

RATE OF RETURN

EXHIBIT

TO ACCOMPANY THE
REBUTTAL TESTIMONY

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VALUATION AND RATE DIVISION



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Test of Reasonableness of Staff's Single-Stage DCF Estimated Cost
Rate to Other Common Equity Cost Rates

			<u>1</u>	<u>2</u>	<u>3</u>
		Staff's Single-Stage DCF Estimate	Market Portfolio ROE of 12.86%	<div style="border: 1px solid black; padding: 5px; text-align: center;"> Illinois Commerce Commission Financial Analysis Division Rate Case Histories Water and Sewer Authorized ROE </div>	
Company	Ticker			Last 30-Months ROE of 10.71%	The Year 2010 ROE of 10.40%
Idacorp Inc	IDA	7.92	-4.94	-2.79	-2.48
Amer Elec Pwr	AEP	9.12	-3.74	-1.59	-1.28
Ameren Corp	AEE	9.73	-3.13	-0.98	-0.67
Westar Energy	WR	11.41	-1.45	0.70	1.01
Cms Energy	CMS	10.07	-2.79	-0.64	-0.33
Avista Corp	AVA	9.14	-3.72	-1.57	-1.26
Pinnacle West	PNW	10.15	-2.71	-0.56	-0.25
Utility Group Average		<u>9.65</u>	<u>-3.21</u>	<u>-1.06</u>	<u>-0.75</u>
Aqua Amer Inc	WTR	9.46	-3.40	-1.25	-0.94
Artesian Res	ARTNA	8.03	-4.83	-2.68	-2.37
Conn Water Svc	CTWS	7.87	-4.99	-2.84	-2.53
Middlesex Water	MSEX	7.06	-5.80	-3.65	-3.34
York Water Co	YORW	9.36	-3.50	-1.35	-1.04
Water Group Average		<u>8.36</u>	<u>-4.50</u>	<u>-2.35</u>	<u>-2.04</u>
Amer Water Work	AWK	11.88	-0.98	1.17	1.48
Water Group With AWK Average		<u>8.94</u>	<u>-3.92</u>	<u>-1.77</u>	<u>-1.46</u>

Comparison of Zacks Growth Rates

<u>1</u>	<u>2</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>
Company	Ticker	Zacks - 7/6/11			8/27/2011	Percent Change In Growth Rate
		Unadjusted Beta	Next 3-5 Yr Est EPS Gr rate	Number of Analysts Providing Zacks Five Years EPS Growth Estimates	Zacks Growth Update	
Idacorp Inc	IDA	0.44	4.67	3	4.67	0%
Amer Elec Pwr	AEP	0.58	4.00	3	4.00	0%
Ameren Corp	AEE	0.68	4.00	1	4.00	0%
Westar Energy	WR	0.66	6.35	3	6.09	-4%
Cms Energy	CMS	0.57	5.50	2	5.50	0%
Avista Corp	AVA	0.73	4.67	3	4.67	0%
Pinnacle West	PNW	0.58	5.00	2	5.30	6%
Utility Group Average			4.88	2.43	4.89	0%
Aqua Amer Inc	WTR	0.22	6.50	2	8.27	27%
Artesian Res	ARTNA	0.38	3.60	1	4.53 *	26%
Conn Water Svc	CTWS	0.46	4.00	1	4.00	0%
Middlesex Water	MSEX	0.42	3.00	1	3.00	0%
York Water Co	YORW	0.47	6.00	1	6.00	0%
Water Group Average			4.62	1.20	5.16	12%
Amer Water Work	AWK	0.33	8.69	3	8.59	-1%
Water Group With AWK Average			5.30	1.50	5.73	8%

* = Reuters growth rate was used due to lack of information from Zacks for ARTNA.

Comparison of Changing Weighting of Cost Rates

Company	Ticker	Staff's Single-Stage DCF Estimate	Staff's CAPM Estimate	Staff's Average Cost of Equity Estimate	Weighting of Cost Rates		
					Staff's Current Case	AQUA2010	IAWC2009
Idacorp Inc	IDA	7.92	9.98	8.95	33%	67%	100%
Amer Elec Pwr	AEP	9.12	10.41	9.77			
Ameren Corp	AEE	9.73	11.08	10.41			
Westar Energy	WR	11.41	10.83	11.12			
Cms Energy	CMS	10.07	10.58	10.33			
Avista Corp	AVA	9.14	10.83	9.99			
Pinnacle West	PNW	10.15	10.41	10.28			
Utility Group Average		9.65	10.58	10.12			
Aqua Amer Inc	WTR	9.46	9.22	9.34			
Artesian Res	ARTNA	8.03	9.31	8.67			
Conn Water Svc	CTWS	7.87	10.49	9.18	67%	33%	0%
Middlesex Water	MSEX	7.06	10.32	8.69			
York Water Co	YORW	9.36	9.65	9.51			
Water Group Average		8.36	9.81	9.08			
Amer Water Work	AWK	11.88	9.48	10.68			
Water Group With AWK Average		8.94	9.75	9.35			
Indicated Weighted Cost Rate					9.60	9.87	10.12

Development of Cost Rates for AWK at 7/06/11

Company	Ticker	Current Price	ZACKS Beta	Next 3-5 Yr Est EPS Gr rate	# Anlst in 3-5 Yr Est EPS Gr rate	Indicated Anl Div
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7/6/2011

Amer Water Work	AWK	\$30.01	0.33	8.69	3	\$0.88
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7/6/2011	Current Dividend				Expected Quarterly Dividend			
	D				D			
	0	0	0	0	1	1	1	1
	1	2	3	4	1	2	3	4
Amer Water Work	\$0.220	\$0.220	\$0.220	\$0.220	\$0.239	\$0.239	\$0.239	\$0.239

	DPS	Price	Yld	G	DCF-K
Amer Water Work	0.956	\$30.01	3.19%	8.69%	11.88%

	VL Beta	Zacks Beta	Adj Zacks	Avg Beta	Rf	Market premium	CAPM-K
Amer Water Work	0.65	0.33	0.56	0.60	4.4	8.46	9.48

Comparison of Changes in Stock Prices

Company	Ticker	Staff's Spot Date 7/6/2011	Recent Spot Date 8/18/2011	Percentage Change In Stock Price
Idacorp Inc	IDA	\$40.06	\$36.22	-9.6%
Amer Elec Pwr	AEP	\$38.50	\$37.26	-3.2%
Ameren Corp	AEE	\$29.01	\$28.50	-1.8%
Westar Energy	WR	\$27.19	\$25.15	-7.5%
Cms Energy	CMS	\$20.04	\$19.00	-5.2%
Avista Corp	AVA	\$26.14	\$23.57	-9.8%
Pinnacle West	PNW	\$44.85	\$41.95	-6.5%
Utility Group Average				<u>-6.2%</u>
Aqua Amer Inc	WTR	\$22.57	\$21.26	-5.8%
Artesian Res	ARTNA	\$18.29	\$17.25	-5.7%
Conn Water Svc	CTWS	\$25.82	\$26.61	3.1%
Middlesex Water	MSEX	\$19.00	\$17.54	-7.7%
York Water Co	YORW	\$16.80	\$16.80	0.0%
Water Group Average				<u>-3.2%</u>
Amer Water Work	AWK	\$30.01	\$27.90	-7.0%
Water Group With AWK Average				<u>-3.9%</u>

Updated Estimate of Staff's Cost of Common Equity

Company	Ticker	8/18/2011		Staff's Single-Stage DCF Estimate	Staff's CAPM Estimate	Staff's Average Cost of Equity Estimate	Weighting of Cost Rates		
		Yield	Growth				Staff's Current Case	AQUA2010	IAWC2009
Idacorp Inc	IDA	3.47	4.67	8.14	9.98	9.06	33%	67%	100%
Amer Elec Pwr	AEP	5.09	4.00	9.09	10.41	9.75			
Ameren Corp	AEE	5.62	4.00	9.62	11.08	10.35			
Westar Energy	WR	5.24	6.09	11.33	10.83	11.08			
Cms Energy	CMS	4.60	5.50	10.10	10.58	10.34			
Avista Corp	AVA	4.78	4.67	9.45	10.83	10.14			
Pinnacle West	PNW	5.27	5.30	10.57	10.41	10.49			
Utility Group Average		4.87	4.89	9.76	10.58	10.17			
Aqua Amer Inc	WTR	3.10	8.27	11.37	9.22	10.29			
Artesian Res	ARTNA	4.56	4.53	9.09	9.31	9.20			
Conn Water Svc	CTWS	3.63	4.00	7.63	10.49	9.06	67%	33%	0%
Middlesex Water	MSEX	4.26	3.00	7.26	10.32	8.79			
York Water Co	YORW	3.26	6.00	9.26	9.65	9.45			
Water Group Average		3.76	5.16	8.92	9.81	9.36			
Amer Water Work	AWK	3.43	8.59	12.02	9.48	10.75			
Water Group With AWK Average		3.71	5.73	9.44	9.75	9.59			
Indicated Weighted Cost Rate							9.78	9.98	10.17

Summary of Sensitivity Analysis of Multi-Stage Non-Constant Growth Discounted Cash Flow for
Staff's Comparison Groups

Sensitivity Analysis of DCF

Groups	Multi-Stage DCF Estimate	Dividend Yield	First Stage Growth Rate	Third Stage Growth Rate	Last Year of 1st Stage Growth	Last Year of 2nd Stage Growth
Based on Spot Date of 7/06/11						
<u>Utility Group</u>						
GDP growth based on Commission	10.52%	4.41%	4.88%	6.00%	5	10
Real GDP Growth Estimation	10.58%	4.41%	4.88%	6.08%	5	10
Nominal GDP Growth Estimation	10.78%	4.41%	4.88%	6.34%	5	10
<u>Water Group (excluding AWK)</u>						
GDP growth based on Commission	9.49%	3.49%	4.62%	6.00%	5	10
Real GDP Growth Estimation	9.55%	3.49%	4.62%	6.08%	5	10
Nominal GDP Growth Estimation	9.77%	3.49%	4.62%	6.34%	5	10
<u>Water Group (including AWK)</u>						
GDP growth based on Commission	9.55%	3.40%	5.30%	6.00%	5	10
Real GDP Growth Estimation	9.61%	3.40%	5.30%	6.08%	5	10
Nominal GDP Growth Estimation	9.82%	3.40%	5.30%	6.34%	5	10
Based on Spot Date of 8/18/11						
<u>Utility Group</u>						
GDP growth based on Commission	10.82%	4.69%	4.89%	6.00%	5	10
Real GDP Growth Estimation	10.88%	4.69%	4.89%	6.08%	5	10
Nominal GDP Growth Estimation	11.08%	4.69%	4.89%	6.34%	5	10
<u>Water Group (excluding AWK)</u>						
GDP growth based on Commission	9.75%	3.62%	5.16%	6.00%	5	10
Real GDP Growth Estimation	9.81%	3.62%	5.16%	6.08%	5	10
Nominal GDP Growth Estimation	10.02%	3.62%	5.16%	6.34%	5	10
<u>Water Group (including AWK)</u>						
GDP growth based on Commission	9.80%	3.54%	5.73%	6.00%	5	10
Real GDP Growth Estimation	9.86%	3.54%	5.73%	6.08%	5	10
Nominal GDP Growth Estimation	10.07%	3.54%	5.73%	6.34%	5	10

Summary of the Estimate of Staff's Cost of Common Equity

	Staff's Multi-Stage DCF Estimate	Staff's CAPM Estimate	Staff's Average Cost of Equity Estimate	Weighting of Cost Rates		
				Staff's Current Case	AQUA2010	IAWC2009
Based on Spot Date of 7/06/11						
<u>Utility Group</u>						
GDP growth based on Commission	10.52	10.58	10.55	33%	67%	100%
Real GDP Growth Estimation	10.58	10.58	10.58	33%	67%	100%
Nominal GDP Growth Estimation	10.78	10.58	10.68	33%	67%	100%
<u>Water Group (excluding AWK)</u>						
GDP growth based on Commission	9.49	9.81	9.65	67%	33%	0%
Real GDP Growth Estimation	9.55	9.81	9.68	67%	33%	0%
Nominal GDP Growth Estimation	9.77	9.81	9.79	67%	33%	0%
<u>Water Group (including AWK)</u>						
GDP growth based on Commission	9.55	9.75	9.65	67%	33%	0%
Real GDP Growth Estimation	9.61	9.75	9.68	67%	33%	0%
Nominal GDP Growth Estimation	9.82	9.75	9.78	67%	33%	0%
Indicated Weighted Cost Rate (excluding AWK)						
GDP growth based on Commission				9.95	10.25	10.55
Real GDP Growth Estimation				9.98	10.28	10.58
Nominal GDP Growth Estimation				10.08	10.39	10.68
Indicated Weighted Cost Rate (including AWK)						
GDP growth based on Commission				9.94	10.25	10.55
Real GDP Growth Estimation				9.98	10.28	10.58
Nominal GDP Growth Estimation				10.08	10.38	10.68
Updated Based on Spot Date of 8/18/11						
<u>Utility Group</u>						
GDP growth based on Commission	10.82	10.58	10.70	33%	67%	100%
Real GDP Growth Estimation	10.88	10.58	10.73	33%	67%	100%
Nominal GDP Growth Estimation	11.08	10.58	10.83	33%	67%	100%
<u>Water Group (excluding AWK)</u>						
GDP growth based on Commission	9.75	9.81	9.78	67%	33%	0%
Real GDP Growth Estimation	9.81	9.81	9.81	67%	33%	0%
Nominal GDP Growth Estimation	10.02	9.81	9.92	67%	33%	0%
<u>Water Group (including AWK)</u>						
GDP growth based on Commission	9.80	9.75	9.77	67%	33%	0%
Real GDP Growth Estimation	9.86	9.75	9.80	67%	33%	0%
Nominal GDP Growth Estimation	10.07	9.75	9.91	67%	33%	0%
Indicated Weighted Cost Rate (excluding AWK)						
GDP growth based on Commission				10.08	10.40	10.70
Real GDP Growth Estimation				10.11	10.43	10.73
Nominal GDP Growth Estimation				10.22	10.53	10.83
Indicated Weighted Cost Rate (including AWK)						
GDP growth based on Commission				10.08	10.39	10.70
Real GDP Growth Estimation				10.11	10.42	10.73
Nominal GDP Growth Estimation				10.21	10.53	10.83